

The fund was up 6.5% in the third quarter, outperforming its benchmark, the FTSE World Index, which was up 3.2% over the same period. Over the last year the fund was up 12.6% and yielded 8.2% pa annualised return over the last five years.

Economic backdrop

Global economic activity is slowing due to increased US tariffs and uncertainty surrounding generally chaotic and aggressive US foreign policy. Financial conditions, which tightened meaningfully in the immediate aftermath of the April US tariff announcements, have moderated due to a sharp rise in asset prices.

Erratic US government policy continues to result in subdued consumer and business sentiment in the US and reduced investment, although the decline in business investment has been less severe than expected due to resilient AI-driven spending. The US labour market is softening as companies delay hiring amid tariff uncertainty and AI-driven change, which is creating lower confidence, skill mismatches, and more cautious workforce planning. Consequently, US economic growth is beginning to weaken from a previously robust rate.

China's nominal economic growth has been weak due to ongoing deflation and the consequences of a weak property market. The economy is now being further undermined by the escalating trade war with the US, which is expected to negatively impact Chinese exports and manufacturing. Positively, however, Chinese consumer confidence and spending may be improving from historically low levels, buoyed by more aggressive monetary and fiscal stimulus, and targeted structural state interventions that have had some success in improving local consumption.

The Japanese and European economies are being negatively affected by both the sharp increase in US tariffs and the continued uncertainty surrounding future tariff actions. There has been some front-loading of export activity ahead of tariff implementation, with underlying weakness now becoming more evident. Europe's economy, which has been stagnating due in part to its export link to a weak manufacturing sector in China, will start to benefit from higher domestic fiscal stimulus. German business confidence, while having retreated recently, remains structurally higher due to the lifting of the debt ceiling and the associated increase in fiscal spending on infrastructure and defence.

South African activity has been supported by higher precious-metal export receipts and a mild recovery in real consumption as falling inflation and interest rates ease household pressure. Yet, a significant increase in online betting has diverted spending from other goods and services. A more enduring lift to economic growth is, however, structurally constrained by the acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence. Disappointingly, the recent moderate increase in investment off very low levels has not yet been accompanied by any notable job creation.

In recent years, there has been progress made in moving to reform the economy through Operation Vulindlela and the partnership between government and business leaders that is targeting key priority areas needing reform. Additionally, the Government of National Unity has brought about positive leadership changes in key ministries and a renewed commitment by government to accelerate initiatives that address the country's structural problems.

Markets review

Global markets were strongly positive in the third quarter (up 7.4% in US dollars), with top contributors being Hong Kong (up 13.5%), Japan (up 9.1%) and the US (up 8.1%). Emerging markets were also very strong, (up 10.9% for the quarter), with outperformance from China (up 20.8%) and South Africa (up 20.6%).

Fund performance and positioning

Notable positive contributors included Micron, Johnson Electric and Fuji Electric. Bellway, Charm Care and Persimmon were main detractors.

We remain overweight in European equities and substantially underweight in US equities relative to our benchmark. We have maintained our positioning in high-quality cyclical companies as we believe that share price levels are still low relative to their long-term prospects, and they should provide very attractive forward-looking returns.

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